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C O N F I D E N T I A L SECTION 01 OF 02 GUATEMALA 002956

SIPDIS

E.O. 12958: DECL: 11/14/2013

TAGS: [PREL](#) [PGOV](#) [PINR](#) [EAID](#) [PHUM](#) [MASS](#) [ETRD](#) [SNAR](#) [GT](#)

SUBJECT: CAPITALIZING ON POLITICAL CHANGE IN GUATEMALA

Classified By: Ambassador John Hamilton for reasons 1.5 (b) and (d).

1. (C) Summary: The assumption of power on January 14, 2004 of a new government more aligned with USG interests offers an opportunity to advance our priority goals in Guatemala by engaging creatively up front on our shared interests in free trade, human rights, strengthening democracy and counter-narcotics cooperation. Key elements of this engagement will be sending a high-level delegation to the inaugural, seeking an invitation from Mexico for the President-elect to attend the special SOA and increasing our FY-04 assistance to the GOG, including DA, ESF and INL funds. For only the second time since the restoration of democracy, the incoming government will not have a majority in Congress, and an unequivocal embrace by us in its early days and weeks will be key to securing domestic support for moving our priorities to the forefront of the new government's action plans. The Department may wish to give consideration to holding a PPC to discuss ways in which we can take advantage of this opportunity. End summary.

2. (C) The change of government on January 14, 2004, and with it the departure of the Portillo administration, characterized by corruption and political confrontation, offers us the best opportunity we have had in several years to advance USG interests in Guatemala. Both of the contenders in the final round of Guatemala's elections share our views on free trade, human rights, strengthening democracy and the war on drugs, and are committed to addressing these issues concretely early on. They will have to work with a deeply divided Congress, however, and will inherit a depleted treasury, a poorly functioning judiciary and government institutions that suffer from congenital bureaucratic inertia. Our decisive engagement with the new government at the outset will be crucial to generating popular and legislative support for the new government's efforts in these areas and will ensure that these priorities receive the new GOG's prompt attention.

3. (C) By sending a Cabinet-led Presidential delegation to the January 14 inaugural, we would send an unmistakable message to the new government and the people of Guatemala that the USG is prepared to engage seriously with the new administration in the pursuit of our common objectives. The new government will need that vote of USG confidence to convince its opponents -- and there will be many in Congress -- to give it time to prove it can bring about change. This will prove particularly important in reassuring Guatemalans that the free trade agreement, negotiated by the old, discredited government, is good for both Guatemalans and Americans, and that we are negotiating free trade in a much broader context of growing cooperation.

4. (C) We should also review all of our engagement options in Guatemala -- from FY-04 assistance levels and the Millennium Challenge Account, to support for rule of law and counter-narcotics assistance -- to see how we can take maximum advantage of the election of a like-minded government in Guatemala. The new government inherits macroeconomic stability, but it will be desperately short of resources. Fiscal reforms as called for in the Peace Accords and ill-fated Fiscal Pact will be needed before government revenues can begin to sustain meaningful reforms in such critical areas as education and health care. We, and the rest of the international donor community, will need to engage early with the new government so that it has the basic fiscal tools to mobilize more resources and prevent them from being lost to corruption. However, it will take time to raise revenues internally. ESF and DA levels to Guatemala have been declining in the past years, in large part because of concerns regarding the lack of vision or political will of the Portillo government to address the country's social and economic problems. We ask that serious consideration be given to increasing FY-04 ESF and DA, especially in support of trade capacity building and rule of law programs and, by extension, to CICIACS. Delaying review of assistance levels until FY-05 would limit our ability to help the new government get its reforms off the ground and would risk squandering the early months, when it might count on greater support in Congress. Similarly, increasing INL assistance would send a concrete signal to the new government that combating narcotics trafficking has got to be an early priority of the GOG, and that we are prepared to back up their political will with increased USG engagement in support of counter-narcotics programs.

15. (C) President Portillo has announced that he will participate for Guatemala at the Presidential Summit in Monterrey, Mexico on January 12-13, only hours before leaving office. It is in the USG's interest that the president-elect participate in that forum in order to get to know his regional counterparts and to show Guatemalans that their new government enjoys international support. We believe it is important that we impress upon the Mexican hosts the importance of inviting the new Guatemalan president to participate in this event as well, as was done with the out-going and in-coming presidents of Brazil at the 1994 SOA in Miami.

16. (C) In view of the window of opportunity the change of government in Guatemala offers to advance USG interests here, consideration might be given to holding a PCC to explore further ways to capitalize. Many of the failures that are associated with Guatemala -- from rising crime to falling social indicators -- are a product of the poor governance and corruption of Alfonso Portillo. His departure and replacement by a more progressive government -- whichever of the two is elected -- offers an opportunity we can not afford to miss.

17. (C) We will send in a separate cable with recommendations on adjusting our military-to-military relationship with the new government.
HAMILTON